

Hulme, Applegate & Humphrey, Inc.
Pittsburgh, Pennsylvania

March 27, 1968

Mr. Orval L. DuBois, Secretary
Securities and Exchange Commission
Washington, D.C.

Dear Mr. DuBois:

We wish to thank you for extending us the opportunity to express our views on the proposed changes in the commission rate structure as represented by proposed Rule 10B-10. We often feel that the small regional firm located outside the major financial centers is the neglected orphan, and it appears that the Commission is insensitive to the particular problems associated with such firms.

Our firm consists of three officers, two salesmen and eight other employees. Municipal bond underwritings and sales contribute approximately 10 to 15 percent of our over-all profits. Mutual Funds, including give-ups, represent no more than 10 percent. The remaining 75-80 percent of our profits is the result of stock transactions and our participation in various underwritings. Approximately 50 percent of our total business is listed New York Exchange securities, and these orders are executed through a member firm correspondent, if the issue is not listed also on the Pittsburgh or Philadelphia Exchanges.

We are continually faced with increasing costs in all areas, from utilities and office rent, wages and insurance costs, to increased regulations and restrictions as dictated by the Commission. Increased volume in recent years has tended to gloss over many of the problems to a small firm such as ours associated with these rising costs. Our back office personnel has been extended to meet this rising volume.

Over a longer run period, we cannot survive rising costs and decreasing fees for our services, with or without the present volume. With the market decline of 1962 and the resulting lower volume, many of the small local firms were forced out of business, due to lack of profits. It appears that 1968 could well be a repeat of this situation, and with reduced income as expressed by the Commission's proposal, the situation will be disastrous to the small firm.

The net result of these proposed changes will be the failure of many firms and a concentration of the industry into the hands of a relatively few large, computerized, national firms. Who, then, will underwrite the risk involved in a

small school addition, or the new court house for a small rural community of say, 3,000 residents? Who will provide the small investors with the personalized service which they seek from a firm such as ours?

Investors in the future, should the proposed changes be enacted, would certainly still be welcome at the large brokerage firm, as long as they come to the counter and do not demand too much time of the broker. Such brokers would become dispensers of mechanical reports on various companies, and would be more order clerks rather than the vital link between the investor and the financial community. They simply would not have the time to do otherwise.

We do not believe that the Commission desires this concentration of the investment industry into large financial institutions. Nor do we believe the Commission fully realizes the financial impact that the proposed changes will have on small regional firms. These proposed restrictions would reduce our gross income 15 percent, but, more significantly, this curtailment would result in a 42.7 percent reduction in our net income before payment of any salaries to officers. We could not survive a 42.7 percent reduction and remain in business. We cannot continue to absorb increasing costs and decreasing profits. Any additional curtailment by the Commission will result in our consequences to an industry already besieged with regulations and control.

Again we thank you for the opportunity to express our thoughts on your proposed Rule 10B-10. We hope you will give favorable consideration to our views.

Sincerely yours,

A. Lowrie Applegate